

MANTSOPA LOCAL MUNICIPALITY (FS196)

# DRAFT (BUDGET)MTREF FORECAST 2014/15

BUDGET

2014

38 JOUBERT STREET LADYBRAND

## PART 1 – ANNUAL BUDGET

### 1.1 Council Resolutions

On ..... the Council of Mantsopa Local Municipality met in the Council Chambers of Mantsopa Local Municipality to consider the annual budget of the municipality for the financial year 2014/15. The Council approved and adopted the following resolutions:

1. The Council of Mantsopa Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:

1.1. The annual budget of the municipality for the financial year 2014/15 and the multi-year and single-year capital appropriations as set out in the following tables:

1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification)

1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote)

1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type)

1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source.

2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in annexure A

3. The Council of Mantsopa Local Municipality, acting in terms of section 75(a) of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2014:

2.1. the tariffs for property rates – as set out in Annexure B

2.2. the tariffs for electricity – as set out in Annexure B

2.3. the tariffs for the supply of water – as set out in Annexure B

2.4. the tariffs for sanitation services – as set out in Annexure B

2.5. the tariffs for solid waste services – as set out in Annexure B

4. The Council of Mantsopa Local Municipality, acting in terms of 75(a) of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2014 the tariffs for other services, as set out in Annexures B.

5. The Municipality reviews the following budget related policies in order to give effect to the implementation of the budget 2014/15 MTERF:

- Rates policy
  - Tariff policy
  - Indigent policy
  - Credit control and collection
  - Investment policy
  - Supply chain policy
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1.2 Executive Summary

The application of sound financial management principles for the compilation of the municipality’s financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

National Treasury’s MFMA Circular No. 51, 54, 66 , 67 and 72 were used to guide the compilation of the 2014/15 MTREF. The main challenges experienced during the compilation of the 2014/15 MTREF can be summarised as follows:

- The on-going difficulties in the national and local economy;
- Aging and poorly maintained water, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk water and electricity (due to tariff increases from Bloem Water and Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Affordability of capital projects – original allocations had to be reduced and the operational expenditure associated with prior year’s capital investments needed to be factored into the budget as part of the 2014/15 MTREF process; and
- Availability of affordable capital/borrowing.

The following budget principles and guidelines directly informed the compilation of the 2014/15 MTREF:

- The 2013/14 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2014/15 annual budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;
- R5 301 204 was set for the following items and allocations to these items had to be supported by a list and/or motivation setting out the intention and cost of the expenditure which was used to prioritise expenditures:
  - Special Projects;
  - Consultant Fees;
  - Furniture and office equipment;
  - Special Events;
  - Refreshments and entertainment and;
  - Subsistence, Travelling & Conference fees (national & international).

In view of the aforementioned, the following table is a consolidated overview of the proposed 2014/15 Medium-term Revenue and Expenditure Framework:

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**Table 1 - Consolidated Overview of the 2013/14 MTREF**

FS196 Mantsope - Table A1 Budget Summary

Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>Financial Performance</b>									
Property rates	12 647	10 762	11 825	15 173	15 173	15 173	16 086	17 212	18 417
Service charges	56 900	66 061	92 697	98 954	98 954	98 954	106 690	114 158	122 149
Investment revenue	497	106	227	191	191	191	200	214	229
Transfers recognised - operational	82 210	64 219	71 198	85 638	83 890	83 890	71 601	76 613	81 976
Other own revenue	11 777	14 320	23 956	18 794	20 852	20 852	21 770	23 293	24 924
<b>Total Revenue (excluding capital transfers and contributions)</b>	164 030	155 469	199 903	218 750	219 060	219 060	216 347	231 491	247 695
Employee costs	44 159	48 719	52 539	65 541	64 636	64 636	71 968	77 006	82 396
Remuneration of councillors	3 667	4 270	4 889	4 227	5 292	5 292	5 715	6 115	6 543
Depreciation & asset impairment		24 328	30 004	13 210	10 557	10 557	11 991	12 830	13 728
Finance charges	817	994	814	792	773	773	512	548	586
Materials and bulk purchases	32 747	36 241	36 364	43 353	41 368	41 368	42 047	44 990	48 140
Transfers and grants			–	–	–	–	–	–	–
Other expenditure	62 017	39 163	127 465	89 986	92 407	92 407	80 603	86 246	92 283
<b>Total Expenditure</b>	157 539	153 716	252 075	217 108	215 033	215 033	212 836	227 735	243 676
<b>Surplus/(Deficit)</b>	6 491	1 753	(52 172)	1 642	4 027	4 027	3 510	3 756	4 019
Transfers recognised - capital				–	–	–	–	–	–
Contributions recognised - capital & contributed assets	–	–	–	(1 630)	(4 016)	(4 016)	(3 506)	(3 786)	(4 089)
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	6 491	1 753	(52 172)	12	11	11	5	(30)	(70)
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–	–	–
<b>Surplus/(Deficit) for the year</b>	6 491	1 753	(52 172)	12	11	11	5	(30)	(70)

Total operating revenue has decline by R2 713 000 for the 2014/15 financial year compared to the 2013/14 Adjustments Budget and represents a decline of 1.2%. The reason is that a grant of R12 570 000 was budget in 2013/14 for learnership that is not included in the budget of 2014/15. For the two outer years, operational revenue is expected to increase by 8% respectively.

Total operating expenditure for the 2014/15 financial year has been appropriated at R212 836 000 and translates into a budgeted surplus of R5 000. When compared to the 2014/15 Adjustments Budget, operational expenditure has decline by 1. % in the 2014/15 as a result of the grant of R12 570 000 budget for during 2013/14 but excluded in 2014/15. However, the expenditure for the outer two years increased with 7%.

The capital budget of R37 218 000 for 2014/15 has decreased by R 20 088 000 when compared to the 2013/14 Adjustment Budget. The reduction is due to les grants available from National Government for capital projects. A substantial portion amounting to R33 712 000 for the capital budget will be funded from Grants. The balance of R3 506 000 will be funded from internally generated funds. It should be noted that own funding has decreased drastically from R9 450 000 to R3 506 000 over a period of three years.

### **1.3 Operating Revenue Framework**

For Mantsopa Local Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
  - Growth in the Municipality and continued economic development;
  - Efficient revenue management, which aims to ensure a 80% annual collection rate for property rates and other key service charges;
  - Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
  - Achievement of full cost recovery of specific user charges especially in relation to trading services;
  - Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
  - The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
  - Increase ability to extend new services and recover costs;
  - The municipality's Indigent Policy and rendering of free basic services; and
  - Tariff policies of the Municipality.
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**Table 2 - Summary of revenue classified by main revenue source**

FS196 Mantsopa - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>R thousand</b>	1									
<b><u>Revenue By Source</u></b>										
Property rates	2	12 647	10 762	11 825	15 173	15 173	15 173	16 086	17 212	18 417
Property rates - penalties & collection charges										
Service charges - electricity revenue	2	19 908	24 600	29 135	32 582	32 582	32 582	34 977	37 426	40 046
Service charges - water revenue	2	18 007	19 614	39 742	32 961	32 961	32 961	36 320	38 862	41 583
Service charges - sanitation revenue	2	11 956	13 829	15 145	21 402	21 402	21 402	22 689	24 277	25 977
Service charges - refuse revenue	2	7 028	8 019	8 675	12 009	12 009	12 009	12 704	13 593	14 545
Service charges - other										
Rental of facilities and equipment		869	940	2 838	1 064	1 064	1 064	1 113	1 190	1 274
Interest earned - external investments		497	106	227	191	191	191	200	214	229
Interest earned - outstanding debtors		9 458	12 662	16 046	17 000	19 000	19 000	20 000	21 400	22 898
Dividends received		19	24	40	20	20	20	20	21	23
Fines		165	89	129	115	115	115	150	161	172
Licences and permits		2								
Agency services										
Transfers recognised - operational		59 349	65 358	71 198	85 638	83 890	83 890	71 601	76 613	81 976
Other revenue	2	1 023	605	–	595	653	653	487	521	558
Gains on disposal of PPE		239								
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>141 168</b>	<b>156 607</b>	<b>195 000</b>	<b>218 750</b>	<b>219 060</b>	<b>219 060</b>	<b>216 347</b>	<b>231 491</b>	<b>247 695</b>

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the Municipality. Rates and service charge revenues comprise 57% of the total operating revenue mix for 2014/15. In the 2013/14 financial year, revenue from rates and services charges totalled 52%. Property rate income increase by R1 million, Electricity by R2.3 million, Water by R3.2 million and sewerage with R1.3 million in the respectively. This growth can be mainly attributed to the increased share that the sale of water and property rates contributes to the total revenue mix. The above table excludes revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality.

Water is the largest revenue source totalling to R36 320 000 with electricity the second largest revenue source totalling R34 977 000. The third largest sources is sanitation with a total of R22 689 000.

Operating grants and transfers budgeted for in 2013/14 totals to R83 890 000. The grants allocated according to DoRA amounts to R71 601 000 for 2014/15. The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

**Table 3 - Operating Transfers and Grant Receipts**

FS196 Mantsopa - Supporting Table SA18 Transfers and grant receipts

Description  R thousand	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>RECEIPTS:</b>									
<b><u>Operating Transfers and Grants</u></b>									
National Government:	57 666	61 757	69 214	70 411	70 009	70 009	70 522	75 616	69 448
Local Government Equitable Share	53 916	59 517	66 714	67 071	67 071	67 071	67 921	69 105	66 730
Finance Management	3 000	1 450	1 500	1 550	1 550	1 550	1 600	1 650	1 700
Municipal Systems Improvement	750	790	800	890	890	890	934	967	1 018
Integrated National Electrification Programme			200		498	498	67	615	
EPWP Incentive				990				3 279	
								-	-
Provincial Government:	-	-	-	-	-	-	-	-	-
Water Affairs									
District Municipality:	2 000	2 000	603	1 256	-	-	-	-	-
EnvironmentalHealth	2 000	2 000	603	1 256	-	-	-	-	-
Other grant providers:	-	-	1 381	13 881	13 881	13 881	1 079	997	-
PMU	-	-	1 381	1 311	1 311	1 311	1 079	997	-
Constuction Seta			-	12 570	12 570	12 570			
Total Operating Transfers and Grants	59 666	63 757	71 198	85 638	83 890	83 890	71 601	76 613	69 448
<b><u>Capital Transfers and Grants</u></b>									
National Government:	22 773	24 119	34 244	30 018	43 710	43 710	33 712	35 966	43 660
Municipal Infrastructure Grant (MIG)	22 773	22 773	24 644	24 916	35 116	35 116	20 499	18 581	20 281
Regional Bulk Infrastructure							7 000	10 000	10 000
Energy Efficiency and Demand Management			8 000	5 000	7 502	8 000	4 000	7 385	10 000
EPWP Incentive		536	1 000	10	1 000	1 000	934		
INEG		810	600	92	92	92	1 279		3 379
Other capital transfers/grants [insert desc]									
Provincial Government:	-	-	-	-	4 000	4 000	-	-	-
Cogta Roads	-	-	-	-	4 000	4 000	-	-	-
District Municipality:	-	-	-	-	-	-	-	-	-
EnvironmentalHealth									
Other grant providers:	-	-	-	-	-	-	-	-	-
PMU									
Total Capital Transfers and Grants	22 773	24 119	34 244	30 018	47 710	47 710	33 712	35 966	43 660
TOTAL RECEIPTS OF TRANSFERS & GRANTS	82 439	87 876	105 442	115 656	131 600	131 600	105 313	112 579	113 108

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the municipality.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible.

The percentage increases of both Eskom and Bloem Water bulk tariffs are above the mentioned inflation target. Given that these tariff increases are determined by external agencies, the impact they have on the municipality's electricity and water tariffs are largely outside the control of the Municipality. Discounting the impact of these price increases in lower consumer tariffs will erode the municipality's future financial position and viability. Salaries are also expected to rise with 7%.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity and water, petrol, diesel, chemicals, cement etc. The current challenge facing the Municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the municipality has undertaken the tariff setting process relating to service charges as follows.

### **1.3.1 Property Rates**

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

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The following stipulations in the Property Rates Policy are highlighted:

- The first R75 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA);
- 50 % rebate will be granted on all residential properties.

The categories of rate-able properties for purposes of levying rates and the proposed rates for the 2014/15 financial year based on a .00986%.

**Table 5 Comparison of proposed rates to levy for the 2014/15 financial year**

Category	Current Tariff	Proposed Tariff	Difference (increase)	% Change
	R	R	R	
<b>Residential</b>	0.004650	.0049300	0.000280	5.68%
<b>Government</b>	0.009300	0.009860	0.000560	5.68%
<b>Business</b>	0.009300	0.009860	0.000560	5.68%
<b>Farms</b>	0.000830	0.000880	0.000050	6%

#### 1.4.2 Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges with regard to water supply as it did with electricity, since demand growth outstrips supply. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

In addition National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective by 2015.

Better maintenance of infrastructure, Commissioning of boreholes and cost-reflective tariffs will ensure that the supply challenges are managed in future to ensure sustainability.

A tariff increase of an average of 5.99% from 1 July 2014 for water is proposed. The budget for bulk water purchases from Bloem Water was increased by approximately 9%, but the costs for chemicals could be cut back a lot enabling an lower increase. In addition 6 kℓ water per 30-day period will again be granted free of charge to all residents.

A summary of the proposed tariffs for households (residential) and non-residential are as follows:

**Table 6 Proposed Water Tariffs**

**DEPARTMENTS**

Category	Current amount payable	Proposed amount payable	Difference (increase)	% Change
<b>Residential</b>	<b>R</b>	<b>R</b>	<b>R</b>	
Basic charge	83.50	88.50	5.00	5.99%
0-6kl	0.00	5.20	5.20	100%
7-20 kl	5.62	5.95	0.33	5.87%
21-40 kl	6.85	7.26	0.41	5.99%
40 kl <	8.25	8.74	0.49	5.94%
<b>Business</b>				
Basic charge	48.50	51.40	2.90	5.98%
Usage	6.10	6.46	0.36	5.90%

**1.4.3 Sale of Electricity and Impact of Tariff Increases**

NERSA has announced the revised bulk electricity pricing structure. A **8.06 %** anticipated increase in the Eskom bulk electricity tariff to municipalities will be effective from 1 July 2014. However, NERSA allowed municipalities to increase tariffs not more than **7.39%**. However, the block tariff structure is used and the lower consumption tariffs increased less than the high consumption tariffs. Furthermore, it should be noted that given the magnitude of the tariff increase, it is expected to depress growth in electricity consumption, which will have a negative impact on the municipality's revenue from electricity.

Registered indigents will again be granted 50 kWh per 30-day period free of charge.

**Table 7 Comparison between current electricity charges and increases**

Monthly consumption kWh	Current amount payable	Proposed amount payable	Difference (increase)	% Change
<b>0-50</b>	<b>R</b>	<b>R</b>	<b>R</b>	
0-50	0.70	0.74	0.04	5.71
51-350	0.827	0.88	0.053	6.41
351-600	1.115	1.197	0.082	7.35
More than 600	1.336	1.428	0.092	7.37
<b>Business</b>	1.40	1.503	0.103	7.36
<b>Bulk</b>	0.545	0.585	0.035	7.34
<b>Departmental</b>	1.40	1.503	0.04	7.36
<b>KVA</b>	90.50	102.50	12.00	7.33

It should further be noted that NERSA advised that a stepped tariff structure needs to be implemented from 1 July 2013. The effect thereof will be that the higher the consumption, the higher the tariff per kWh. The aim is to subsidise the lower consumption users (mostly the poor). However, Mantsopa implemented the block tariff already back in 2009 with the first roll out.

The inadequate electricity bulk capacity and the impact on service delivery and development remains a challenge for the Municipality.

The approved budget for the Electricity Division can only be utilised for certain committed upgrade projects and to strengthen critical infrastructure (e.g. substations without back-up supply). Special funding of R 8 092 000 was received during 2013/14 financial year for electrification of Mantsopa, a further R 4000 000 is expected for 2014/15 financial year.

#### 1.4.4 Sanitation and Impact of Tariff Increases

A tariff increase of approximately 6% from 1 July 2014 is proposed. This is based on the input cost assumptions related to water. It should be noted that electricity and chemicals costs contribute largely to treatment of waste water input costs.

The following factors also contribute to the proposed tariff increase:

- Free sanitation will be applicable to registered indigents; and
- The total revenue expected to be generated from rendering this service amounts to R22 689 000 for the 2014/15 financial year.

Monthly consumption	Current amount payable R	Proposed amount payable R	Difference (increase) R	% Change
Households	134.00	142.00	8.00	5.97%
Business	220.00	233.00	13.00	5.90%
Bulk	6150.00	6500.00	350.00	5.69%
Departmental	205.00	217.00	12.00	5.85%

#### 1.4.5 Waste Removal and Impact of Tariff Increases

It is widely accepted that the rendering of this service should at least break even, although this service is currently making surplus.

A 5.71% increase in the waste removal tariff is proposed from 1 July 2014. Higher increases will not be viable in 2014/15 owing to the significant increases implemented in previous financial years as well as the overall impact of higher than inflation increases of other services. Free sanitation will be applicable to registered indigents

Monthly consumption	Current amount payable R	Proposed amount payable R	Difference (increase) R	% Change
Households	70.00	74.00	4.00	5.71%
Business	280.00	296.00	16.00	5.71%
Departmental	280.00	296.00	16.00	5.71%

#### 1.4.6 Overall impact of tariff increases on households

The following table shows the overall expected impact of the tariff increases on a large and small household, as well as an indigent household receiving free basic services.

FS196 Mantsopa - Supporting Table SA14 Household bills

Description	2010/11	2011/12	2012/13	Current Year 2013/14			Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2014/15 % incr.	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
Rand/cent									
<b>Monthly Account for Household - 'Middle Income Range'</b>									
<b>Rates and services charges:</b>									
Property rates	300.00	315.00	348.96	242.19	242.19	6.0%	256.77	272.18	288.51
Electricity: Basic levy	70.00	70.00							
Electricity: Consumption	718.00	858.00	1 021.50	1 093.85	1 093.85	7.1%	1 171.45	1 241.74	1 316.24
Water: Basic levy	70.00	73.00	78.00	83.50	83.50	6.0%	88.50	93.81	99.44
Water: Consumption	122.80	128.92	137.50	147.18	147.18	27.1%	187.10	196.45	206.37
Sanitation	110.00	116.00	125.00	134.00	134.00	6.0%	142.00	150.52	159.55
Refuse removal	58.00	61.20	65.00	70.00	70.00	5.7%	74.00	78.44	83.15
<b>sub-total</b>	<b>1 448.80</b>	<b>1 622.12</b>	<b>1 775.96</b>	<b>1 770.72</b>	<b>1 770.72</b>	<b>6.7%</b>	<b>1 919.82</b>	<b>2 017.16</b>	<b>2 154.06</b>
VAT on Services	160.83	183.00	199.78	213.99	213.99	0.00	232.83	282.40	301.57
<b>Total large household bill:</b>	<b>1 609.63</b>	<b>1 805.12</b>	<b>1 975.74</b>	<b>1 984.71</b>	<b>1 984.71</b>	<b>6.7%</b>	<b>2 152.65</b>	<b>2 299.55</b>	<b>2 455.63</b>
% increase/-decrease		12.1%	9.5%	0.5%	-		8.5%	6.8%	6.8%
<b>Monthly Account for Household - 'Affordable Range'</b>									
<b>Rates and services charges:</b>									
Property rates	212.50	223.13	237.29	164.69	164.69		174.60	185.08	196.19
Electricity: Consumption	340.50	387.00	424.50	450.35	450.35	6.7%	480.55	509.38	539.95
Water: Basic levy	70.00	73.00	78.00	83.50	83.50	6.0%	88.50	93.81	99.44
Water: Consumption	100.00	104.96	111.90	112.93	112.93	33.50%	150.80	157.98	165.58
Sanitation	110.00	116.00	125.00	134.00	134.00	6.0%	142.00	150.52	159.55
Refuse removal	58.00	61.20	65.00	70.00	70.00	5.7%	74.00	78.44	83.15
<b>sub-total</b>	<b>891.00</b>	<b>965.29</b>	<b>1 041.69</b>	<b>1 015.47</b>	<b>1 015.47</b>	<b>9.4%</b>	<b>1 110.45</b>	<b>1 175.21</b>	<b>1 243.85</b>
VAT on Services	94.99	103.90	112.62	119.11	119.11	0.01	131.02	164.33	174.14
<b>Total small household bill:</b>	<b>985.99</b>	<b>1 069.19</b>	<b>1 154.31</b>	<b>1 134.58</b>	<b>1 134.58</b>	<b>9.4%</b>	<b>1 241.47</b>	<b>1 339.74</b>	<b>1 471.99</b>
% increase/-decrease		8.4%	8.0%	(1.7%)	-		9.4%	7.9%	5.8%
			-0.06	-1.21	-1.00				
<b>Monthly Account for Household - 'Indigent' Household receiving free basic services</b>									
<b>Rates and services charges:</b>									
Property rates	112.50	118.13	125.63	87.19	87.19	6.0%	92.44	97.98	103.86
Electricity: Consumption	192.00	213.00	234.00	248.10	248.10	6.4%	264.00	279.84	296.63
Water: Basic levy	-	-	-	-	-				
Water: Consumption	65.80	69.02	73.50	78.68	78.68	5.9%	83.30	88.30	93.60
Sanitation	-	-	-	-	-				
Refuse removal	-	-	-	-	-				
<b>sub-total</b>	<b>370.30</b>	<b>400.15</b>	<b>433.13</b>	<b>413.97</b>	<b>413.97</b>	<b>6.2%</b>	<b>439.74</b>	<b>466.12</b>	<b>494.09</b>
VAT on Services	36.09	39.48	43.05	45.75	45.75	0.00	48.62	51.54	54.63
<b>Total small household bill:</b>	<b>406.39</b>	<b>439.63</b>	<b>476.18</b>	<b>459.72</b>	<b>459.72</b>	<b>6.2%</b>	<b>488.36</b>	<b>517.66</b>	<b>548.72</b>
% increase/-decrease		8.2%	8.3%	(3.5%)	-		6.2%	6.0%	6.0%

## 1.5 Operating Expenditure Framework

The municipality's expenditure framework for the 2014/15 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plans no budget*. If there is no business plan no funding allocation can be made.

The following table is a high level summary of the 2014/15 budget and MTREF (classified per main type of operating expenditure):

FS196 Mantsopa - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>Expenditure By Type</b>									
Employee related costs	44 159	48 719	51 536	65 541	64 636	64 636	71 968	77 006	82 396
Remuneration of councillors	3 667	4 270	4 889	4 227	5 292	5 292	5 715	6 115	6 543
Debt impairment	37 327	10 694	95 997	18 628	18 628	18 628	20 090	21 496	23 001
Depreciation & asset impairment	23 491	24 328	30 004	13 210	10 557	10 557	11 991	12 830	13 728
Finance charges	817	994	814	792	773	773	512	548	586
Bulk purchases	20 523	26 226	29 954	31 126	31 126	31 126	33 647	36 002	38 522
Other materials	12 224	10 015	6 410	12 227	10 242	10 242	8 400	8 988	9 618
Contracted services	6 921	7 860	–	–	–	–	–	–	–
Transfers and grants	15 894	22 286	–	–	–	–	–	–	–
Other expenditure	17 769	20 609	–	71 358	73 780	73 780	60 513	64 749	69 282
Loss on disposal of PPE									
<b>Total Expenditure</b>	<b>182 792</b>	<b>176 002</b>	<b>219 604</b>	<b>217 108</b>	<b>215 033</b>	<b>215 033</b>	<b>212 836</b>	<b>227 735</b>	<b>243 676</b>

The budgeted allocation for employee related costs for the 2014/15 financial year totals R71 968 which equals 34% of the total operating expenditure. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 7% for the 2014/15 financial year. An annual increase of 7% has been included in the two outer years of the MTREF.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the municipality's budget and an amount of R5 715 000.

The provision of debt impairment was determined for the 2014/15 financial year on an amount equates to R20 090 000.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R11 991 for the 2014/15. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). Finance charges make up 0.25% (R513 000) of operating expenditure excluding annual redemption for 2014/15.

Bulk purchases are directly informed by the purchase of electricity from Eskom and water from Bloem Water. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditure includes distribution losses.

Other materials comprise of amongst others the purchase of fuel, diesel, materials for maintenance, cleaning materials and chemicals. In line with the municipality's repairs and maintenance plan this group of expenditure has been prioritised to ensure sustainability of the municipality's infrastructure. The appropriation against this group of expenditure has decreased from R10 242 000 in the 2013/14 adjustment budget to R 8 400 000 in 2014/15 budget, but will grow at 8% for the two outer years of MTREF.

#### **1.5.1 Priority given to repairs and maintenance**

Aligned to the priority being given to preserving and maintaining the municipality's current infrastructure, the 2014/15 budget and MTREF provide for extensive growth in the area of asset maintenance, as informed by the asset renewal strategy and repairs and maintenance plan of the municipality. In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services. Considering these cost drivers, the following table is a consolidation of all the expenditures associated with repairs and maintenance:

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FS196 Mantsopa - Supporting Table SA34c Repairs and maintenance expenditure by asset class

Description  R thousand	2010/11	2011/12	2012/13	Current Year 2013/14		2014/15 Medium Term Revenue & Expenditure Framework		Budget Year +2 2016/17
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2014/15	Budget Year +1 2015/16	
<b>Repairs and maintenance expenditure by Asset Class/Sub-class</b>								
<b>Infrastructure</b>	6 363	6 363	2 281	8 103	8 103	7 049	7 543	8 071
Infrastructure - Road transport	1 920	1 920	405	5 690	5 690	5 192	5 555	5 944
<i>Roads, Pavements &amp; Bridges</i>	1 920	1 920	405	5 690	5 690	5 192	5 555	5 944
Infrastructure - Electricity	606	606	522	153	153	103	110	118
<i>Transmission &amp; Reticulation</i>	606	606	521	153	153	103	110	118
Infrastructure - Water	2 750	2 750	644	747	747	702	751	803
<i>Dams &amp; Reservoirs</i>	2 750	2 750		747	747	702	751	803
<i>Water purification</i>			436					
<i>Reticulation</i>			208					
Infrastructure - Sanitation	640	640	19	203	203	243	260	278
<i>Reticulation</i>	640	640		203	203	243	260	278
<i>Sewerage purification</i>			19					
Infrastructure - Other	447	447	692	1 310	1 310	810	867	927
<i>Waste Management</i>	447	447	691	1 310	1 310	810	867	927
<b>Community</b>	5 255	5 255	146	4 122	4 122	774	828	886
Parks & gardens	285	285		105	105	131	140	150
Community halls	1 800	1 800	111	95	95	273	292	313
Libraries	12	12						
Fire, safety & emergency	340	340	35	207	207	215	230	246
Cemeteries	4	4						
Other	2 815	2 815		3 715	3 715	156	167	178
<b>Investment properties</b>	5	5	-	3	3	10	11	11
Housing development	5	5		3	3	10	11	11
<b>Other assets</b>	-	-	3 984	-	-	567	607	650
General vehicles			931					
Specialised vehicles	-	-	-	-	-	-	-	-
Plant & equipment			112					
Computers - hardware/equipment			2 941					
Other						567	607	650
<b>Total Repairs and Maintenance Expenditure</b>	<b>11 623</b>	<b>11 623</b>	<b>6 411</b>	<b>12 227</b>	<b>12 227</b>	<b>8 400</b>	<b>8 988</b>	<b>9 618</b>
<i>R&amp;M as a % of PPE</i>	2.6%	1.6%	0.9%	4.1%	1.6%	1.1%	1.1%	1.1%
<i>R&amp;M as % Operating Expenditure</i>	6.7%	6.6%	2.3%	5.6%	5.7%	4.0%	4.0%	4.0%

During the compilation of the 2014/15 MTREF operational repairs and maintenance was identified as a strategic imperative owing to the aging of the municipality's infrastructure and historic deferred maintenance. To this end, repairs and maintenance was substantially decreased by 31.65% in the 2014/15 financial year, from R12 227 000 to R8 400 000. Notwithstanding this reduction, as part of the 2014/15 MTREF this strategic imperative remains a priority as can be seen by the budget appropriations over the MTREF. The total allocation for 2014/15 equates to R8 400 000.

In relation to the total operating expenditure, repairs and maintenance comprises of 3.9%.

### **1.5.2 Free Basic Services: Basic Social Services Package**

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the municipality's Indigent Policy. The target is to register **4000** (four thousand) or more indigent households during the 2014/15 financial year, a process reviewed annually.

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.



## 1.6 Capital expenditure

The following table provides a breakdown of budgeted capital expenditure by vote:

### 2013/14 Medium-term capital budget per vote

FS196 Mantsopa - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

Vote Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>Capital Expenditure - Standard</b>									
<i><b>Governance and administration</b></i>	809	2 304	204	572	1 176	1 176	1 574	1 699	1 724
Executive and council	161		154	19	323	323	474	511	511
Budget and treasury office	157	939	50	–	300	300	100	108	108
Corporate services	491	1 365		553	553	553	1 000	1 080	1 080
<i><b>Community and public safety</b></i>	1 633	628	3 913	483	4 769	4 769	4 408	4 761	4 761
Community and social services	1 633	628	2 601	–	4 184	4 184	4 153	4 486	4 486
Sport and recreation			1 297		102	102			
Public safety			15	395	395	395	255	275	275
Housing				88	88	88			
Health									
<i><b>Economic and environmental services</b></i>	11 435	11 400	3 996	3 941	6 509	6 509	17 136	18 507	18 507
Planning and development				3 941	–	–	20	22	22
Road transport	11 435	11 400	3 996	–	6 509	6 509	17 116	18 485	18 485
Environmental protection									
<i><b>Trading services</b></i>	98 090	8 710	27 891	26 474	39 102	39 102	14 100	15 228	15 228
Electricity			6 391	5 092	8 092	8 092	5 500	5 940	5 940
Water		1 306	2 037	400	1 800	1 800	7 200	7 776	7 776
Waste water management	98 090	7 403	19 463	20 982	29 030	29 030	400	432	432
Waste management					180	180	1 000	1 080	1 080
<i><b>Other</b></i>									
<b>Total Capital Expenditure - Standard</b>	<b>111 967</b>	<b>23 042</b>	<b>36 004</b>	<b>31 469</b>	<b>51 556</b>	<b>51 556</b>	<b>37 218</b>	<b>40 195</b>	<b>40 195</b>
<b>Funded by:</b>									
National Government	10 309	15 503	34 244	24 916	35 618	35 618	33 712	36 409	36 409
Provincial Government				–	4 000	4 000			
District Municipality	3 927								
Other transfers and grants				5 092	8 092	8 092			
<b>Transfers recognised - capital</b>	<b>14 236</b>	<b>15 503</b>	<b>34 244</b>	<b>30 008</b>	<b>47 710</b>	<b>47 710</b>	<b>33 712</b>	<b>36 409</b>	<b>36 409</b>
<b>Public contributions &amp; donations</b>									
<b>Borrowing</b>									
<b>Internally generated funds</b>	<b>9 450</b>	<b>5 237</b>	<b>1 760</b>	<b>1 630</b>	<b>4 016</b>	<b>4 016</b>	<b>3 506</b>	<b>3 786</b>	<b>3 786</b>
<b>Total Capital Funding</b>	<b>23 686</b>	<b>20 740</b>	<b>36 004</b>	<b>31 638</b>	<b>51 726</b>	<b>51 726</b>	<b>37 218</b>	<b>40 195</b>	<b>40 195</b>

For 2014/15 an amount of R37 217 600 has been budgeted for capital expenditure of which R28 699 000 is for infrastructure which represents 77% of the total capital budget. Roads and storm water receives the highest allocation namely R17 115 649 in 2014/15.

Total new assets represent R25 494 149.

- Council – R150 000: Vehicle
- Administrative Services – R450 000 High capacity Photo Copier
- Finance - R100 000 New computers

- Community Services – R 20 000: Furniture and Equipment
- Internal Audit – R 15 000: Furniture and Equipment
- Internal Audit – R 10 000: Teammate software
- Traffic – R 20 000: Fire arms
- IDP – R1 500: Furniture
- LED – R 100 000: LED and tourism projects
- LED – R2 000 Microwave oven
- LED – R4 000: Fridge
- LED – R56 000 Furniture for LED and Tourism office
- Electricity – R1 000 000: Electrification
- Water – R7 000 000: Upgrading Provision of water
- Roads and Streets – R12 579 135 Manyatseng ringroad 3.2Km + .7Km lined stormwater
- Roads and streets – R200 000 Construction of roads : Dawiesville Ext 1
- Roads and streets – R3 786 514 Mahlatswetsa 1Km paved road

Total replacement of assets represent R11 723 451.

- Administrative Services – R550 000 Replace telephone system
  - Internal audit – R25 000 Replacement furniture
  - Traffic – R70 000 AARTO equipment
  - Traffic – R5 000 Laptop
  - Traffic – R10 000 Replace furniture
  - Traffic – R150 000 replace vehicle
  - IDP – R 10 000 Replace Furniture
  - Council – R100 000 Replace furniture
  - PMU – R20 000 Replace furniture
  - Properties – R4 133 451 Renewal of Arthur Pitso Stadium hall
  - Roads and streets – R50 000 replace road safety equipment
  - Roads and streets – R500 000 replace tipper truck
  - Electricity – R4 000 000 EEDG program
  - Electricity – R500 000 Truck with cherry picker
  - Water – R200 000 Replace LDV
  - Refuse – R1 000 000 Replace compactor truck
  - Sewerage – R400 000 Replace bakkies
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## Part 2 – Supporting Documentation

### 2.1

#### Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the MMC for Finance.

The primary aims of the Budget Steering Committee are to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the City's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

##### 2.1.1 Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2010) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required the IDP and budget time schedule on 30 August 2013 (Council Resolution 617 20/08/2013). Key dates applicable to the process were:

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**SUMMARISED BUDGET TABLE**

<b>OBJECTIVE</b>	<b>RESPONSIBILITY</b>	<b>TARGET DATE</b>	<b>% COMPLETE</b>
Develop budget and schedule for preparation of operating and capital budget (Adopted from Treasury guide)	IDP/Budget & Treasury	23 August 2013	100%
Review tariffs and charges and collection of revenue and prepare forecasts of revenue for next three years in consultation with other municipalities (Section 21 (2) (d))	Budget & Treasury	March 2014	100%
Develop structure of budgets to align with portfolios and organisational management structures.	Budget and Treasury Officer	Structure developed	100%
Integrate the IDP planning process with the budget process and timetable through development of operational and project plans.	MM / MFS	November 2014	100%
Prepare initial estimates of portfolio allocations for next three years based on past performance, council priorities and objectives and operational and	Budget and Treasury Officer	February 2014	100%

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project plans.			
Evaluate estimates and allocations to determine a draft budget and budget options for three years.	MFS/ All Heads of Departments	14 March 2014	50%
In consultation with IDP Steering Committee develop capital and operating budgets for next three years.	IDP Steering Committee / MM / MFS		100%
Prepare cash flow budget / statements.	Budget and Treasury Officer	21 March 2014	100%
Prepare budget documentation in accordance with framework.	Budget and Treasury Officer	31 March 2014	25%
Prepare budget information in reporting formats (National Treasury)	Budget and Treasury Officer	31 March 2014	25%
Communicate proposed budget to community for comments and inputs.	Councillors	April 2014	100%
Submit draft budget to National Treasury.	Budget and Treasury Officer	07 April 2014	100%
Advertise proposed budget to public for objections.	MAS	07 April 2014	100%
Table draft budget in Council for public consultation and	Mayor	31 March 2014	100%

debate.			
Submit electricity tariffs to the NERSA for approval.	Budget and Treasury Officer	April 2014	100%
Approve 2014/2015 capital and operating budgets and cash flow budget by resolution that also notes outer two year's projected budgets.	Council	30 June 2014	
Submit approved budgets to National Treasury.	Budget and Treasury Officer	07 June 2014	
Draft SDBIP (Section 69 (3) (a))	IDP Manager	July 2014	

### **2.1.2. IDP and Service Delivery and Budget Implementation Plan**

This is the second review of the IDP as adopted by Council in May 2012. It started in September 2013 after the tabling of the IDP Process Plan and the Budget Time Schedule for the 2014/15 MTREF in August.

The Municipality's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan. The Process Plan applicable to the first revision cycle included the following key IDP processes and deliverables:

- Registration of community needs;
- Compilation of departmental business plans including key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the SDBIP, and
- The review of the performance management and monitoring processes.

The IDP has been taken into a business and financial planning process leading up to the 2014/15 MTREF, based on the approved 2013/134 MTREF, Mid-year Review and adjustments

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budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2014/15 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2013/14 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

### **2.1.3. Financial Modelling and Key Planning Drivers**

As part of the compilation of the 2014/15 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2014/15 MTREF:

- Municipality growth
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2013/14 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- Loan and investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 51-72 has been taken into consideration in the planning and prioritisation process.

### **2.1.4. Community Consultation**

The draft 2014/15 MTREF as tabled before Council on 27 March 2014 for community consultation was published on the municipality's website, and hard copies were made available at customer care offices, municipal notice boards and various libraries

All documents in the appropriate format (electronic and printed) were provided to National Treasury, and other national and provincial departments in accordance with section 23 of the MFMA, to provide an opportunity for them to make inputs.

Ward Committees were utilised to facilitate the community consultation process, and included public briefing sessions. The applicable dates and venues were published in all the local newspapers. This can be attributed to the additional initiatives that were launched during the consultation process, including the specific targeting of ratepayer associations. Individual sessions were scheduled with organised business and imbizo's were held to further ensure transparency and interaction. Other stakeholders involved in the consultation included churches, non-governmental institutions and community-based organisations.

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Submissions received during the community consultation process and additional information regarding revenue and expenditure and individual capital projects were addressed, and where relevant considered as part of the finalisation of the 2014/15 MTREF. Feedback and responses to the submissions received are available on request. The following are some of the issues and concerns raised as well as comments received during the consultation process:

- Capital expenditure is not allocated to the areas in the same ratio as the income derived from those areas. This is a normal practice in a collective taxation environment. The Municipality is responsible for managing the equitable use of resources to ensure that constitutional imperative to progressively improve basic services in undeveloped areas is realized in a sustainable manner over a reasonable period of time;
- Several complaints were received regarding poor service delivery, especially the state of road infrastructure;
- The affordability of tariff increases, especially electricity, was raised on numerous occasions. This concern was also raised by organized business as an obstacle to economic growth;
- Pensioners cannot afford the tariff increases due to low annual pension increases; and
- During the community consultation process large sections of the community made it clear that they are not in favour of any further tariff increases to fund additional budget requests. They indicated that the municipality must do more to ensure efficiencies and value for money.

Significant changes effected in the final 2014/15 MTREF compared to the draft 2013/14 MTREF that was tabled for community consultation, include:

- The final Eskom bulk tariff increase, applicable to municipalities from 1 April 2014, was factored into the proposed consumer tariffs, applicable from 1 July 2014. This resulted in an increase of 8.06 % for bulk purchases;
- The 2014 Division of Revenue Act (DORA) grant allocations were finalized and aligned to the gazetted allocations; and

## **2.2. Overview of alignment of annual budget with IDP**

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning

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provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the City, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the City strategically complies with the key national and provincial priorities.

The aim of this revision cycle was to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the City's response to these requirements.

The national and provincial priorities, policies and strategies of importance include amongst others:

- Government Programme of Action;
- Development Facilitation Act of 1995;
- Provincial Growth and Development Strategy (GGDS);
- National and Provincial spatial development perspectives;
- Relevant sector plans such as transportation, legislation and policy;
- National Key Performance Indicators (NKPis);
- Accelerated and Shared Growth Initiative (ASGISA);
- National 2014 Vision;
- National Spatial Development Perspective (NSDP) and
- The National Priority Outcomes.

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP. The following table highlights the IDP's five strategic objectives for the 2014/15 MTREF and further planning refinements that have directly informed the compilation of the budget:

### **IDP Strategic Objectives**

<b>2013/14 Financial Year</b>	<b>2014/15 MTREF</b>
1. The provision of quality basic services and infrastructure	1. Provision of quality basic services and infrastructure
2. Acceleration of higher and shared economic growth and development	2. Economic growth and development that leads to sustainable job creation
3.1 Fight poverty and build clean, healthy, safe and sustainable communities	3.1 Fight poverty and build clean, healthy, safe and sustainable communities
	3.2 Integrated Social Services for empowered and sustainable communities
4. Fostering participatory democracy and adherence to Batho Pele principles through a caring, accessible and accountable service	4. Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service
5. Good governance, Financial viability and institutional governance	5.1 Promote sound governance
	5.2 Ensure financial sustainability
	5.3 Optimal institutional transformation

In order to ensure integrated and focused service delivery between all spheres of government it was important for the Municipality to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

Local priorities were identified as part of the IDP review process which is directly aligned to that of the national and provincial priorities. The key performance areas can be summarised as follows against the five strategic objectives:

1. Provision of quality basic services and infrastructure which includes, amongst others:
  - Provide electricity;
  - Provide water;
  - Provide sanitation;
  - Provide waste removal;
  - Provide housing;
  - Provide roads and storm water;
  - Provide town planning services; and
  - Maintaining the infrastructure of the Town.
2. Economic growth and development that leads to sustainable job creation by:
  - Ensuring there is a clear structural plan for the town
  - Ensuring planning processes function in accordance with set timeframes;
  - Facilitating the use of labour intensive approaches in the delivery of services and the building of infrastructure.
- 3.1 Fight poverty and build clean, healthy, safe and sustainable communities:
  - Effective implementation of the Indigent Policy;
  - Extending waste removal services and ensuring effective city cleansing;
  - Ensuring all waste water treatment works are operating optimally;
  - Ensuring safe working environments by effective enforcement of building and health regulations;
  - Promote viable, sustainable communities through proper zoning; and
4. Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service by:
  - Optimising effective community participation in the ward committee system; and
  - Implementing Batho Pele in the revenue management strategy.
- 5.1 Ensure financial sustainability through:
  - Reviewing the use of contracted services
  - Continuing to implement the infrastructure renewal strategy and the repairs and maintenance plan
- 5.2 Optimal institutional transformation to ensure capacity to achieve set objectives
  - Review of the organizational structure to optimize the use of personnel;

In line with the MSA, the IDP constitutes a single, inclusive strategic plan for the town. The five-year programme responds to the development challenges and opportunities faced by the City by identifying the key performance areas to achieve the five the strategic objectives mentioned above.

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In addition to the five-year IDP, the City undertakes an extensive planning and developmental strategy which primarily focuses on a longer-term horizon; 15 to 20 years. This process is aimed at influencing the development path by proposing a substantial programme of public-led investment to restructure current patterns of settlement, activity and access to resources in the town so as to promote greater equity and enhanced opportunity. The strategy specifically targets future developmental opportunities in traditional dormitory settlements. It provides direction to the town's IDP, associated sectoral plans and strategies, and the allocation of resources of the town and other service delivery partners.

Lessons learned with previous IDP revision and planning cycles as well as changing environments were taken into consideration in the compilation of the first revised IDP, including:

- Strengthening the analysis and strategic planning processes of the town;
- Ensuring better coordination through a programmatic approach and attempting to focus the budgeting process through planning interventions; and
- Strengthening performance management and monitoring systems in ensuring the objectives and deliverables are achieved.

The 2014/15 MTREF has therefore been directly informed by the IDP revision process.

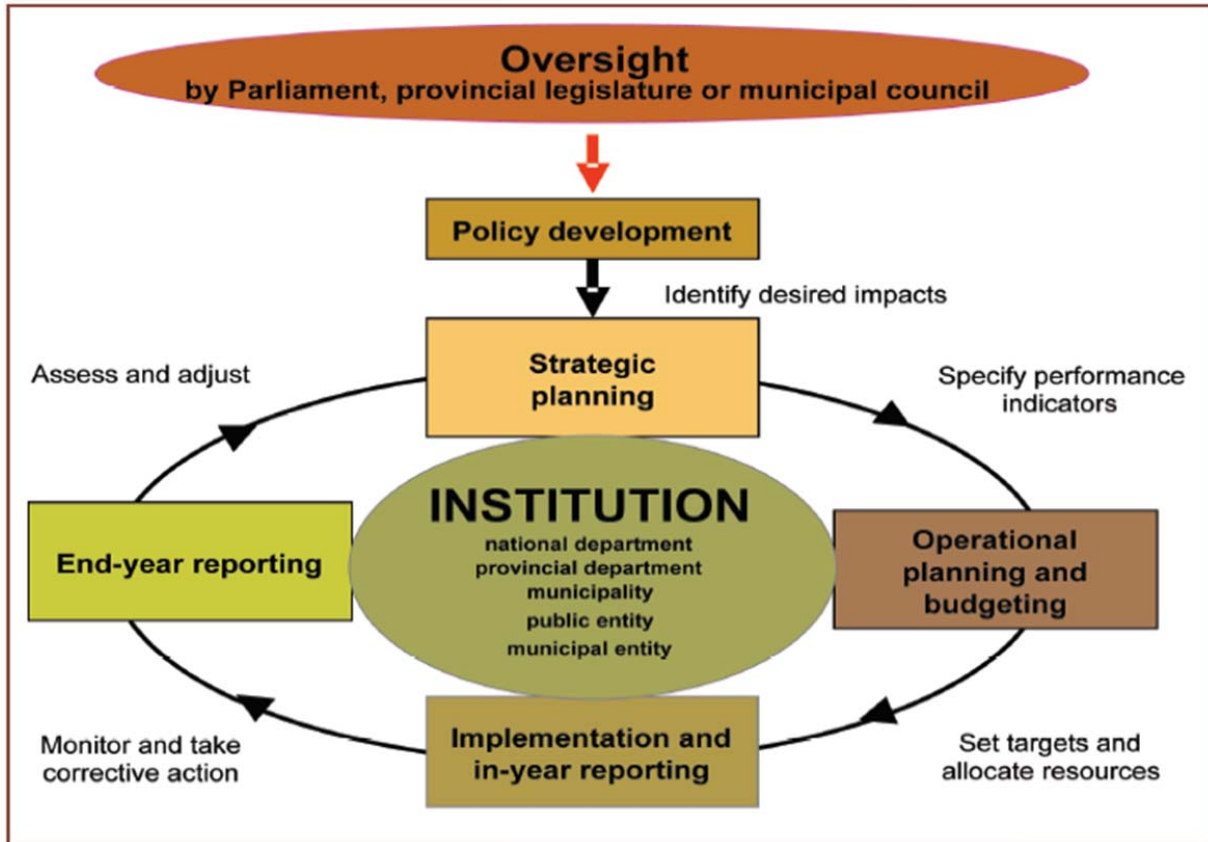
### **2.3. Measurable performance objectives and indicators**

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the town has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assesses and reviews organisational performance which in turn is directly linked to individual employee's performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance. Although performance information is reported publicly during the last stage, the performance information process begins when policies are being developed, and continues through each of the planning, budgeting, implementation and reporting stages.

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The planning, budgeting and reporting cycle can be graphically illustrated as follows:

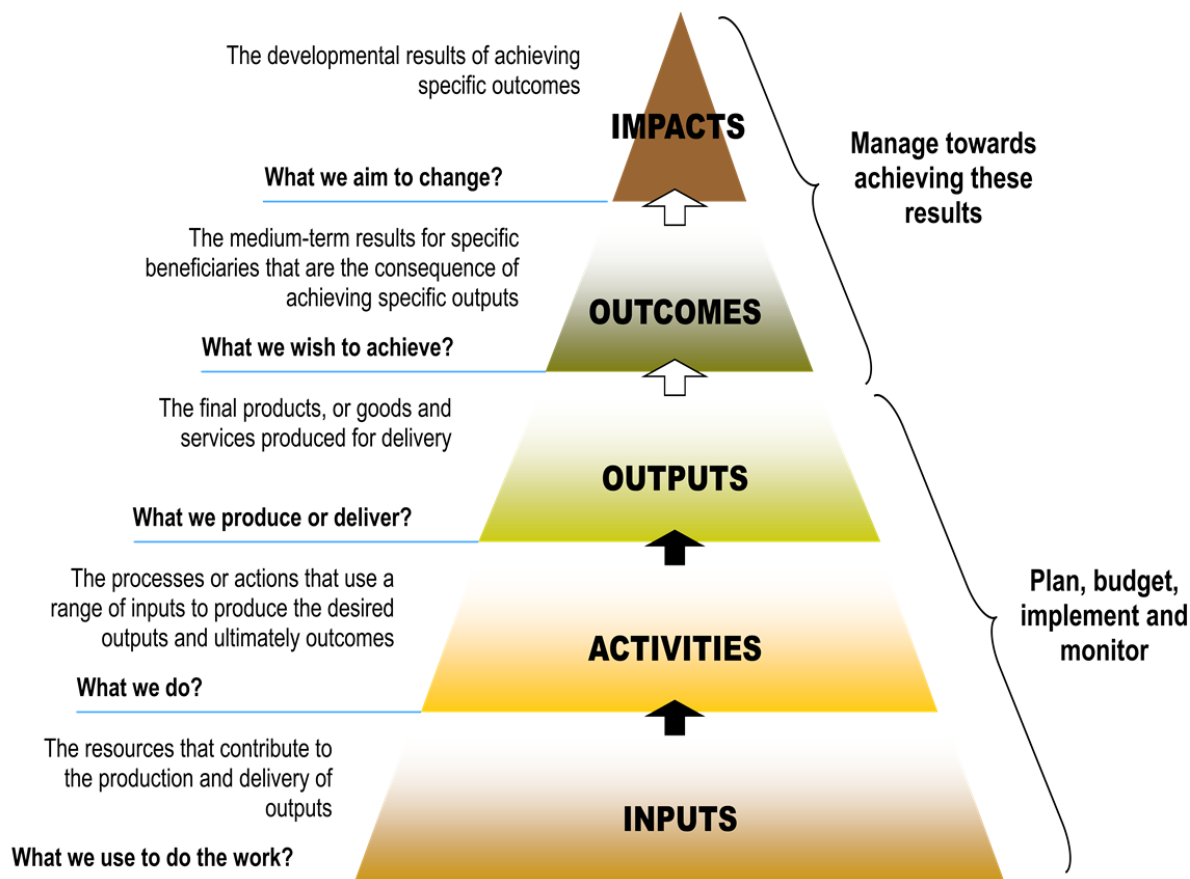


**Figure 1 Planning, budgeting and reporting cycle**

The performance of the town relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The town therefore has adopted one integrated performance management system which encompasses:

- Planning (setting goals, objectives, targets and benchmarks);
- Monitoring (regular monitoring and checking on the progress against plan);
- Measurement (indicators of success);
- Review (identifying areas requiring change and improvement);
- Reporting (what information, to whom, from whom, how often and for what purpose); and
- Improvement (making changes where necessary).

The performance information concepts used by the town in its integrated performance management system are aligned to the **Framework of Managing Programme Performance Information** issued by the National Treasury:



## Definition of performance information concepts

### 2.3.2. Performance indicators and benchmarks

#### 2.3.2.1. Borrowing Management

Capital expenditure in local government can be funded by capital grants, own-source revenue and long term borrowing. The ability of a municipality to raise long term borrowing is largely dependent on its creditworthiness and financial position. As with all other municipalities, Mantsopa municipality's borrowing strategy is primarily informed by the affordability of debt repayments.

#### 2.3.2.2. Safety of Capital

- *The debt-to-equity ratio* is a financial ratio indicating the relative proportion of equity and debt used in financing the municipality's assets. The indicator is based on the total of loans, creditors, overdraft and tax provisions as a percentage of funds and reserves.

#### *2.3.2.3. Revenue Management*

- As part of the financial sustainability strategy, an aggressive revenue management framework has been implemented to increase cash inflow, not only from current billings but also from debtors that are in arrears in excess of 90 days. The intention of the strategy is to streamline the revenue value chain by ensuring accurate billing, customer service, credit control and debt collection.

#### *2.3.2.4. Creditors Management*

- The council is currently not able to ensure that creditors are settled within the legislated 30 days of invoice due to cash flow problems.

#### *2.3.2.5. Other Indicators*

- The electricity distribution losses have been increased over the last few years to an unacceptable 34% plus.
- The water distribution losses cannot be determined as a result of no bulk water meters at the purification plant.
- Employee costs as a percentage of operating revenue is above the norm of 35% at 36.74%.

### **2.3.3. Free Basic Services: basic social services package for indigent households**

The social package assists residents that have difficulty paying for services and are registered as indigent households in terms of the Indigent Policy of the City. With the exception of water, only registered indigents qualify for the free basic services.

For the 2013/14 financial year 2336 registered indigents have been provided for and may increase to 4000 by 2014/15. In terms of the Municipality's indigent policy registered households are entitled to 6kl free water, 50 kwh of electricity, free sanitation and free waste removal per month.

### **2.3.4. Providing clean water and managing waste water**

Approximately R1 200 000 was budgeted for bulk water purchases from Bloem Water Board for Excelsior. The municipality supplies water to all other towns.

The Department of Water Affairs conducts an annual performance rating of water treatment works, presenting a Blue Drop or Green Drop award respectively to potable water treatment works and waste water treatment works that meet certain criteria of excellence.

The following are briefly the main challenges facing the municipality in this regard:

- The infrastructure at most of the waste water treatment works are old and insufficient to treat the increased volumes of waste water to the necessary compliance standard;
-

- Shortage of skilled personnel makes proper operations and maintenance difficult;

The following are some of the steps that have been taken to address these challenges:

- Infrastructure shortcomings are being addressed through the capital budget in terms of a 5-year upgrade plan;
- The Division is working in consultation with the Department of Water Affairs to address water conservation and demand management.

## **2.4. Overview of budget related-policies**

The council's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

### **2.4.2. Review of credit control and debt collection procedures/policies**

The Collection Policy as approved by Council in May 2013 is currently under review. While the adopted policy is credible, sustainable, manageable and informed by affordability and value for money there has been a need to review certain components to achieve a higher collection rate. Some of the possible revisions will include the lowering of the credit periods for the down payment of debt. In addition emphasis will be placed on speeding up the indigent registration process to ensure that credit control and debt collection efforts are not fruitlessly wasted on these debtors.

As most of the indigents within the municipal area are unable to pay for municipal services because they are unemployed

The 2014/15 MTREF has been prepared on the basis of achieving an average debtors' collection rate of 85 per cent on current billings. In addition the collection of debt in excess of 90 days has been prioritised as a pertinent strategy in increasing the council's cash levels.

### **2.4.3. Asset Management, Infrastructure Investment and Funding Policy**

A proxy for asset consumption can be considered the level of depreciation each asset incurs on an annual basis. Preserving the investment in existing infrastructure needs to be considered a significant strategy in ensuring the future sustainability of infrastructure and the municipality revenue base. Within the framework, the need for asset renewal was considered a priority and hence the capital programme was determined based on renewal of current assets versus new asset construction.

Further, continued improvements in technology generally allows many assets to be renewed at a lesser 'real' cost than the original construction cost. Therefore, it is considered prudent to allow for a slightly lesser continual level of annual renewal than the average annual depreciation.

The adjustments budget process is governed by various provisions in the MFMA and is aimed at instilling and establishing an increased level of discipline, responsibility and accountability in the financial management practices of municipalities. To ensure that the municipality continues to deliver on its core mandate and achieves its developmental goals, the mid-year review and adjustment budget process will be utilised to ensure that underperforming functions are identified and funds redirected to performing functions.

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#### **2.4.4. Supply Chain Management Policy**

The Supply Chain Management Policy was adopted by Council in April 2012.

#### **2.4.5. Cash Management and Investment Policy**

The municipality's Cash Management and Investment Policy is currently under review and will be table before council together with the budget for approval. The aim of the policy is to ensure that the Town's surplus cash and investments are adequately managed, especially the funds set aside for the cash backing of certain reserves.

#### **2.4.6. Tariff Policies**

The municipality's tariff policy provide a broad framework within which the Council can determine fair, transparent and affordable charges that also promote sustainable service delivery. The policy is currently under review and will be table together with the budget for approval.

### **2.5. Overview of budget assumptions**

#### **2.5.2. External factors**

Owing to the economic slowdown, financial resources are limited due to reduced payment levels by consumers. This has resulted in declining cash inflows, which has necessitated restrained expenditure to ensure that cash outflows remain within the affordability parameters of the municipality's finances.

#### **2.5.3. General inflation outlook and its impact on the municipal activities**

There are five key factors that have been taken into consideration in the compilation of the 2014/15 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Municipality's residents and businesses;
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity and water; and
- The increase in the cost of remuneration. Employee related costs comprise 36.74 per cent of total operating expenditure in the 2014/15 MTREF and therefore this increase above inflation places a disproportionate upward pressure on the expenditure budget

#### **2.5.4. Interest rates for borrowing and investment of funds**

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The MFMA specifies that borrowing can only be utilised to fund capital or refinancing of borrowing in certain conditions. The Municipality is not engaging in any new borrowings for 2014/2015. Investment of surplus money and unspent grants are done regularly.

#### **2.5.5. Collection rate for revenue services**

The base assumption is that tariff and rating increases will increase at a rate slightly higher than CPI over the long term. It is also assumed that current economic conditions, and relatively controlled inflationary conditions, will continue for the forecasted term.

The rate of revenue collection is currently expressed as under 70% of annual billings. Cash flow is assumed to be 85% of billings, plus an increased collection of arrear debt from the revised collection and credit control policy. The performance of arrear collections will however only be considered a source of additional cash in-flow once the performance has been carefully monitored.

#### **2.5.6. Growth or decline in tax base of the municipality**

Debtor's revenue is assumed to increase at a rate that is influenced by the consumer debtor's collection rate, tariff/rate pricing, real growth rate of the town, household formation growth rate and the poor household change rate.

Household formation is the key factor in measuring municipal revenue and expenditure growth, as servicing 'households' is a greater municipal service factor than servicing individuals. Household formation rates are assumed to convert to household dwellings. In addition the change in the number of poor households influences the net revenue benefit derived from household formation growth, as it assumes that the same costs incurred for servicing the household exist, but that no consumer revenue is derived as the 'poor household' limits consumption to the level of free basic services.

#### **2.5.7. Salary increases**

The collective agreement regarding salaries/wages came into operation on 1 July 2012 and shall remain in force until 30 June 2015. Salary increase for 2014/15 is budgeted at 7%. All vacant posts are included in the budget.

#### **2.5.8. Impact of national, provincial and local policies**

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and in this regard various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiatives:

- Creating jobs;
  - Enhancing education and skill development;
  - Rural development and agriculture; and
-

## 2.6. Overview of budget funding

### 2.6.2. Medium-term outlook: operating revenue

The following table is a breakdown of the operating revenue over the medium-term.

FS196 Mantsopa - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description  R thousand	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>Revenue By Source</b>									
Property rates	12 647	10 762	11 825	15 173	15 173	15 173	16 086	17 212	18 417
Property rates - penalties & collection charges									
Service charges - electricity revenue	19 908	24 600	29 135	32 582	32 582	32 582	34 977	37 426	40 046
Service charges - water revenue	18 007	19 614	39 742	32 961	32 961	32 961	36 320	38 862	41 583
Service charges - sanitation revenue	11 956	13 829	15 145	21 402	21 402	21 402	22 689	24 277	25 977
Service charges - refuse revenue	7 028	8 019	8 675	12 009	12 009	12 009	12 704	13 593	14 545
Service charges - other									
Rental of facilities and equipment	869	940	2 838	1 064	1 064	1 064	1 113	1 190	1 274
Interest earned - external investments	497	106	227	191	191	191	200	214	229
Interest earned - outstanding debtors	9 458	12 662	16 046	17 000	19 000	19 000	20 000	21 400	22 898
Dividends received	19	24	40	20	20	20	20	21	23
Fines	165	89	129	115	115	115	150	161	172
Licences and permits	2								
Agency services									
Transfers recognised - operational	59 349	65 358	71 198	85 638	83 890	83 890	71 601	76 613	81 976
Other revenue	1 023	605	–	595	653	653	487	521	558
Gains on disposal of PPE	239								
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>141 168</b>	<b>156 607</b>	<b>195 000</b>	<b>218 750</b>	<b>219 060</b>	<b>219 060</b>	<b>216 347</b>	<b>231 491</b>	<b>247 695</b>

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the Municipality. Rates and service charge revenues comprise 57% of the total operating revenue mix for 2014/15. In the 2013/14 financial year, revenue from rates and services charges totalled 52%. Property rate income increase by R1 million, Electricity by R2.3 million, Water by R3.2 million and sewerage with R1.3 million in the respectively. This growth can be mainly attributed to the increased share that the sale of water and property rates contributes to the total revenue mix. The above table excludes revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality.

Water is the largest revenue source totalling to R36 320 000 with electricity the second largest revenue source totalling R34 977 000. The third largest sources is sanitation with a total of R22 689 000.

Operating grants and transfers budgeted for in 2013/14 totals to R83 890 000. The grants allocated according to DoRA amounts to R71 601 000 for 2014/15. The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

## Medium-term outlook: capital revenue

The following table is a breakdown of the funding composition of the 2014/15 medium-term capital programme:

### Sources of capital revenue over the MTREF

#### 2013/14 Medium-term capital budget per vote

FS196 Mantsopa - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

Vote Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>Funded by:</b>									
National Government	10 309	15 503	34 244	24 916	35 618	35 618	33 712	36 409	39 322
Provincial Government				–	4 000	4 000			
District Municipality	3 927								
Other transfers and grants				5 092	8 092	8 092			
<b>Transfers recognised - capital</b>	<b>14 236</b>	<b>15 503</b>	<b>34 244</b>	<b>30 008</b>	<b>47 710</b>	<b>47 710</b>	<b>33 712</b>	<b>36 409</b>	<b>39 322</b>
<b>Public contributions &amp; donations</b>									
<b>Borrowing</b>									
<b>Internally generated funds</b>	<b>9 450</b>	<b>5 237</b>	<b>1 760</b>	<b>1 630</b>	<b>4 016</b>	<b>4 016</b>	<b>3 506</b>	<b>3 786</b>	<b>4 089</b>
<b>Total Capital Funding</b>	<b>23 686</b>	<b>20 740</b>	<b>36 004</b>	<b>31 638</b>	<b>51 726</b>	<b>51 726</b>	<b>37 218</b>	<b>40 195</b>	<b>43 411</b>

For 2014/15 an amount of R37 217 600 has been budgeted for capital income of which R36 409 000 represents grants received while an amount of R3 505 600 will come from own revenue.

### 2.6.3. Cash Flow Management

Cash flow management and forecasting is a critical step in determining if the budget is funded over the medium-term. The table below is consistent with international standards of good financial management practice and also improves understandability for councillors and management. Some specific features include:

- Clear separation of receipts and payments within each cash flow category;
- Clear separation of capital and operating receipts from government, which also enables cash from 'Ratepayers and other' to be provided for as cash inflow based on actual performance. In other words the *actual collection rate* of billed revenue., and
- Separation of borrowing and loan repayments (no set-off), to assist with MFMA compliance assessment regarding the use of long term borrowing (debt).

FS196 Mantsopa - Table A7 Budgeted Cash Flows

Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>R thousand</b>									
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>									
<b>Receipts</b>									
Ratepayers and other	87 988	21 091	57 650	114 774	115 959	115 959	103 161	111 414	120 327
Government - operating	60 231	84 336	71 998	77 449	84 290	84 290	71 601	77 329	83 515
Government - capital	30 117	21 906	34 244	30 008	37 110	37 110	33 712	36 409	39 322
Interest	–	12 773	16 348	17 191	19 191	19 191	20 200	21 816	23 561
Dividends	–	24	40	20	20	20	20	22	23
<b>Payments</b>									
Suppliers and employees	(136 081)	(118 428)	(133 155)	(175 175)	(203 703)	(203 703)	(192 234)	(207 613)	(224 222)
Finance charges	(2 722)	(994)	(814)	(792)	(773)	(773)	(512)	(553)	(597)
Transfers and Grants									
<b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>	<b>39 533</b>	<b>20 708</b>	<b>46 311</b>	<b>63 475</b>	<b>52 094</b>	<b>52 094</b>	<b>35 947</b>	<b>38 823</b>	<b>41 929</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>									
<b>Receipts</b>									
Proceeds on disposal of PPE									
Decrease (Increase) in non-current debtors									
Decrease (increase) other non-current receivables									
Decrease (increase) in non-current investments		(326)	(7 957)						
<b>Payments</b>									
Capital assets	(39 532)	(21 906)	(36 004)	(31 638)	(51 725)	(51 725)	(37 218)	(40 195)	(43 411)
<b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>	<b>(39 532)</b>	<b>(22 233)</b>	<b>(43 961)</b>	<b>(31 638)</b>	<b>(51 725)</b>	<b>(51 725)</b>	<b>(37 218)</b>	<b>(40 195)</b>	<b>(43 411)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>									
<b>Receipts</b>									
Short term loans									
Borrowing long term/refinancing		6	6						
Increase (decrease) in consumer deposits									
<b>Payments</b>									
Repayment of borrowing		(1 247)	(2 200)	(1 089)	(1 338)	(1 338)	( 1 338)	(1 445)	(1 561)
<b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b>	<b>–</b>	<b>(1 241)</b>	<b>(2 194)</b>	<b>(1 089)</b>	<b>(1 338)</b>	<b>(1 338)</b>	<b>( 1 338)</b>	<b>( 1 445)</b>	<b>( 1 561)</b>
<b>NET INCREASE/ (DECREASE) IN CASH HELD</b>	<b>0</b>	<b>(2 766)</b>	<b>156</b>	<b>30 748</b>	<b>(969)</b>	<b>(969)</b>	<b>(2 608)</b>	<b>(2 817)</b>	<b>(3 042)</b>
Cash/cash equivalents at the year begin:	<b>(1 393)</b>	<b>(1 392)</b>	<b>(4 158)</b>	<b>80</b>	<b>193</b>	<b>193</b>	<b>193</b>	<b>(2 415)</b>	<b>(5 232)</b>
Cash/cash equivalents at the year end:	<b>(1 392)</b>	<b>(4 158)</b>	<b>(4 002)</b>	<b>30 828</b>	<b>(775)</b>	<b>(775)</b>	<b>(2 415)</b>	<b>(5 232)</b>	<b>(8 274)</b>

#### 2.6.3.1. Cash/cash equivalent position

The municipality's forecast cash position was discussed as part of the budgeted cash flow statement. A 'positive' cash position, for each year of the MTREF would generally be a minimum requirement, subject to the planned application of these funds such as cash-backing of reserves and working capital requirements.

#### *2.6.3.2. Monthly average payments covered by cash or cash equivalents*

The purpose of this measure is to understand the level of financial risk should the municipality be under stress from a collection and cash in-flow perspective. Regardless of the annual cash position an evaluation should be made of the ability of the council to meet monthly payments as and when they fall due. It is especially important to consider the position should the municipality be faced with an unexpected disaster that threatens revenue collection such as rate boycotts.

#### *2.6.3.3. Surplus/deficit excluding depreciation offsets*

The main purpose of this measure is to understand if the revenue levels are sufficient to conclude that the community is making a sufficient contribution for the municipal resources consumed each year. An 'adjusted' surplus/deficit is achieved by offsetting the amount of depreciation related to externally funded assets. Municipalities need to assess the result of this calculation taking into consideration its own circumstances and levels of backlogs. If the outcome is a deficit, it may indicate that rates and service charges are insufficient to ensure that the community is making a sufficient contribution toward the economic benefits they are consuming over the medium term.

It needs to be noted that a surplus does not necessarily mean that the budget is funded from a cash flow perspective and the first two measures in the table are therefore critical.

#### **Property Rates/service charge revenue as a percentage increase less macro inflation target**

The purpose of this measure is to understand whether the municipality is contributing appropriately to the achievement of national inflation targets. This measure is based on the increase in 'revenue', which will include both the change in the tariff as well as any assumption about real growth such as new property development, services consumption growth etc.

#### *2.6.3.4. Cash receipts as a percentage of ratepayer and other revenue*

This factor is a macro measure of the rate at which funds are 'collected'. This measure is intended to analyse the underlying assumed collection rate for the MTREF to determine the relevance and credibility of the budget assumptions contained in the budget.

#### **Debt impairment expense as a percentage of billable revenue**

This factor measures whether the provision for debt impairment is being adequately funded and is based on the underlying assumption that the provision for debt impairment (doubtful and bad debts) has to be increased to offset under-collection of billed revenues.

#### *2.6.3.5. Capital payments percentage of capital expenditure*

The purpose of this measure is to determine whether the timing of payments has been taken into consideration when forecasting the cash position.

#### *2.6.3.6. Transfers/grants revenue as a percentage of Government transfers/grants available*

The purpose of this measurement is mainly to ensure that all available transfers from national and provincial government have been budgeted for. A percentage less than 100 per cent could indicate that not all grants as contained in the Division of Revenue Act (DoRA) have been budgeted for. The council has budgeted for all transfers.

#### *2.6.3.7. Consumer debtors change (Current and Non-current)*

The purpose of these measures is to ascertain whether budgeted reductions in outstanding debtors are realistic. There are 2 measures shown for this factor; the change in current debtors and the change in long

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term receivables, both from the Budgeted Financial Position. Both measures show a relatively stable trend in line with the municipality's policy of settling debtor's accounts within 30 days.

#### 2.6.3.8. *Repairs and maintenance expenditure level*

This measure must be considered important within the context of the funding measures criteria because a trend that indicates insufficient funds are being committed to asset repair could also indicate that the overall budget is not credible and/or sustainable in the medium to long term because the revenue budget is not being protected. Contracts having future budgetary implications

In terms of the council's Supply Chain Management Policy, no contracts are awarded beyond the medium-term revenue and expenditure framework (three years). In ensuring adherence to this contractual time frame limitation, all reports submitted to either the Bid Evaluation and Adjudication Committees must obtain formal financial comments from the Financial Management Division of the Treasury Department.

## 2.7. Capital expenditure details

### 2013/14 Medium-term capital budget per vote

FS196 Mantsopa - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

Vote Description  R thousand	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>Capital Expenditure - Standard</b>									
<b>Governance and administration</b>	809	2 304	204	572	1 176	1 176	1 574	1 699	1 835
Executive and council	161		154	19	323	323	474	511	552
Budget and treasury office	157	939	50	–	300	300	100	108	117
Corporate services	491	1 365		553	553	553	1 000	1 080	1 166
<b>Community and public safety</b>	1 633	628	3 913	483	4 769	4 769	4 408	4 761	5 142
Community and social services	1 633	628	2 601	–	4 184	4 184	4 153	4 486	4 845
Sport and recreation			1 297		102	102			
Public safety			15	395	395	395	255	275	297
Housing				88	88	88			
<b>Economic and environmental services</b>	11 435	11 400	3 996	3 941	6 509	6 509	17 136	18 507	19 987
Planning and development				3 941	–	–	20	22	23
Road transport	11 435	11 400	3 996	–	6 509	6 509	17 116	18 485	19 964
<b>Trading services</b>	98 090	8 710	27 891	26 474	39 102	39 102	14 100	15 228	16 446
Electricity			6 391	5 092	8 092	8 092	5 500	5 940	6 415
Water		1 306	2 037	400	1 800	1 800	7 200	7 776	8 398
Waste water management	98 090	7 403	19 463	20 982	29 030	29 030	400	432	467
Waste management					180	180	1 000	1 080	1 166
<b>Other</b>									
<b>Total Capital Expenditure - Standard</b>	<b>111 967</b>	<b>23 042</b>	<b>36 004</b>	<b>31 469</b>	<b>51 556</b>	<b>51 556</b>	<b>37 218</b>	<b>40 195</b>	<b>43 411</b>
<b>Funded by:</b>									
National Government	10 309	15 503	34 244	24 916	35 618	35 618	33 712	36 409	39 322
Provincial Government				–	4 000	4 000			
District Municipality	3 927								
Other transfers and grants				5 092	8 092	8 092			
<b>Transfers recognised - capital</b>	<b>14 236</b>	<b>15 503</b>	<b>34 244</b>	<b>30 008</b>	<b>47 710</b>	<b>47 710</b>	<b>33 712</b>	<b>36 409</b>	<b>39 322</b>
<b>Public contributions &amp; donations</b>									
<b>Borrowing</b>									
<b>Internally generated funds</b>	<b>9 450</b>	<b>5 237</b>	<b>1 760</b>	<b>1 630</b>	<b>4 016</b>	<b>4 016</b>	<b>3 506</b>	<b>3 786</b>	<b>4 089</b>
<b>Total Capital Funding</b>	<b>23 686</b>	<b>20 740</b>	<b>36 004</b>	<b>31 638</b>	<b>51 726</b>	<b>51 726</b>	<b>37 218</b>	<b>40 195</b>	<b>43 411</b>

## **2.8. Legislation compliance status**

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

1. In year reporting  
Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has progressively.
2. Internship programme  
The council is participating in the Municipal Financial Management Internship programme and has employed four interns undergoing training in various divisions of the Financial Services Department. Since the introduction of the Internship programme the municipality has successfully trained and employed 12 interns. Other interns joined other municipalities.

The Budget and Treasury Office has been established in accordance with the MFMA.

3. Audit Committee  
An Audit Committee has been established and is fully functional.
  4. Service Delivery and Implementation Plan  
The detail SDBIP document is at a draft stage and will be finalised after approval of the 2013/14 MTREF directly aligned and informed by the 2014/15 MTREF.
  5. Annual Report  
Annual report is compiled in terms of the MFMA and National Treasury requirements.
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## 2.9. Other supporting documents

### 3. FS196 Mantsopa - Table A1 Budget Summary

Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>R thousands</b>									
<b><u>Financial Performance</u></b>									
Property rates	12 647	10 762	11 825	15 173	15 173	15 173	16 086	17 212	18 417
Service charges	56 900	66 061	92 697	98 954	98 954	98 954	106 690	114 158	122 149
Investment revenue	497	106	227	191	191	191	200	214	229
Transfers recognised - operational	59 349	65 358	71 198	85 638	83 890	83 890	71 601	76 613	81 976
Other own revenue	11 777	14 320	19 053	18 794	20 852	20 852	21 770	23 293	24 924
<b>Total Revenue (excluding capital transfers and contributions)</b>	141 168	156 607	195 000	218 750	219 060	219 060	216 347	231 491	247 695
Employee costs	44 159	48 719	51 536	65 541	64 636	64 636	71 968	77 006	82 396
Remuneration of councillors	3 667	4 270	4 889	4 227	5 292	5 292	5 715	6 115	6 543
Depreciation & asset impairment	23 491	24 328	30 004	13 210	10 557	10 557	11 991	12 830	13 728
Finance charges	817	994	814	792	773	773	512	548	586
Materials and bulk purchases	32 747	36 241	36 364	43 353	41 368	41 368	42 047	44 990	48 140
Transfers and grants	15 894	22 286	–	–	–	–	–	–	–
Other expenditure	62 017	39 163	95 997	89 986	92 407	92 407	80 603	86 246	92 283
<b>Total Expenditure</b>	182 792	176 002	219 604	217 108	215 033	215 033	212 836	227 735	243 676
<b>Surplus/(Deficit)</b>	(41 623)	(19 395)	(24 604)	1 642	4 027	4 027	3 510	3 756	4 019
Transfers recognised - capital	22 861	21 634	35 044	–	–	–	–	–	–
Contributions recognised - capital & contributed assets	–	–	–	–	–	–	(3 506)	(3 786)	(4 089)
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	(18 762)	2 239	10 440	1 642	4 027	4 027	5	(30)	(70)
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–	–	–
<b>Surplus/(Deficit) for the year</b>	(18 762)	2 239	10 440	1 642	4 027	4 027	5	(30)	(70)



FS196 Mantsopa - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>R thousand</b>	1									
<b>Revenue By Source</b>										
Property rates	2	12 647	10 762	11 825	15 173	15 173	15 173	16 086	17 212	18 417
Property rates - penalties & collection charges										
Service charges - electricity revenue	2	19 908	24 600	29 135	32 582	32 582	32 582	34 977	37 426	40 046
Service charges - water revenue	2	18 007	19 614	39 742	32 961	32 961	32 961	36 320	38 862	41 583
Service charges - sanitation revenue	2	11 956	13 829	15 145	21 402	21 402	21 402	22 689	24 277	25 977
Service charges - refuse revenue	2	7 028	8 019	8 675	12 009	12 009	12 009	12 704	13 593	14 545
Service charges - other										
Rental of facilities and equipment		869	940	2 838	1 064	1 064	1 064	1 113	1 190	1 274
Interest earned - external investments		497	106	227	191	191	191	200	214	229
Interest earned - outstanding debtors		9 458	12 662	16 046	17 000	19 000	19 000	20 000	21 400	22 898
Dividends received		19	24	40	20	20	20	20	21	23
Fines		165	89	129	115	115	115	150	161	172
Licences and permits		2								
Agency services										
Transfers recognised - operational		59 349	65 358	71 198	85 638	83 890	83 890	71 601	76 613	81 976
Other revenue	2	1 023	605	–	595	653	653	487	521	558
Gains on disposal of PPE		239								
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>141 168</b>	<b>156 607</b>	<b>195 000</b>	<b>218 750</b>	<b>219 060</b>	<b>219 060</b>	<b>216 347</b>	<b>231 491</b>	<b>247 695</b>

**Table 3 - Operating Transfers and Grant Receipts**

FS196 Mantsopa - Supporting Table SA18 Transfers and grant receipts

Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>RECEIPTS:</b>									
<b>- Operating Transfers and Grants</b>									
<b>National Government:</b>	57 666	61 757	69 214	70 411	70 009	70 009	70 522	75 616	69 448
Local Government Equitable Share	53 916	59 517	66 714	67 071	67 071	67 071	67 921	69 105	66 730
Finance Management	3 000	1 450	1 500	1 550	1 550	1 550	1 600	1 650	1 700
Municipal Systems Improvement	750	790	800	890	890	890	934	967	1 018
Integrated National Electrification Programme			200		498	498	67	615	
EPWP Incentive				990				3 279	
								-	-
<b>Provincial Government:</b>	-	-	-	-	-	-	-	-	-
Water Affairs									
<b>District Municipality:</b>	2 000	2 000	603	1 256	-	-	-	-	-
EnvironmentalHealth	2 000	2 000	603	1 256	-	-	-	-	-
<b>Other grant providers:</b>	-	-	1 381	13 881	13 881	13 881	1 079	997	-
PMU	-	-	1 381	1 311	1 311	1 311	1 079	997	-
Constuction Seta			-	12 570	12 570	12 570			
<b>Total Operating Transfers and Grants</b>	59 666	63 757	71 198	85 638	83 890	83 890	71 601	76 613	69 448
<b>Capital Transfers and Grants</b>									
<b>National Government:</b>	22 773	24 119	34 244	30 018	43 710	43 710	33 712	35 966	43 660
Municipal Infrastructure Grant (MIG)	22 773	22 773	24 644	24 916	35 116	35 116	20 499	18 581	20 281
Regional Bulk Infrastructure							7 000	10 000	10 000
Energy Efficiency and Demand Management			8 000	5 000	7 502	8 000	4 000	7 385	10 000
EPWP Incentive		536	1 000	10	1 000	1 000	934		
INEG		810	600	92	92	92	1 279		3 379
Other capital transfers/grants [insert desc]									
<b>Provincial Government:</b>	-	-	-	-	4 000	4 000	-	-	-
Cogta Roads	-	-	-	-	4 000	4 000	-	-	-
<b>District Municipality:</b>	-	-	-	-	-	-	-	-	-
EnvironmentalHealth									
<b>Other grant providers:</b>	-	-	-	-	-	-	-	-	-
PMU									
<b>Total Capital Transfers and Grants</b>	22 773	24 119	34 244	30 018	47 710	47 710	33 712	35 966	43 660
<b>TOTAL RECEIPTS OF TRANSFERS &amp; GRANTS</b>	82 439	87 876	105 442	115 656	131 600	131 600	105 313	112 579	113 108

**3.1. Municipal manager’s quality certificate**

I ....., municipal manager of Mantsopa Local Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name \_\_\_\_\_

Municipal manager of Mantsopa Local Municipality (FS 196)

Signature \_\_\_\_\_

Date \_\_\_\_\_